This week

- **The most important event this week will be the review of Poland's long-term rating by Fitch and Moody's planned to be released on Friday.** In July 2016, Fitch left Poland's long-term rating at A- with a stable outlook. The Agency indicated at the time that potentially negative for the rating could be: failure to stabilize budget deficit in medium term, introduction of the foreign currency mortgage act in a form threatening the stability of the financial system as well as changes in the economic policy or a stronger than expected impact of Brexit putting at risk the macroeconomic stability and outlook for economic growth. In our view, the likelihood of public finance sector deficit rising above 3% of GDP in medium term has not increased significantly since the July review and other risks listed above have not materialized. Consequently, we expect Fitch to maintain the so-far rating with a stable outlook. The Agency is likely to underline the risk of public finance balance deteriorating in medium term due to the reduction of retirement age; however, this will not be a sufficient argument for changing the rating outlook to negative. In November and December Moody's published press releases in which they pointed to a negative impact of the reduction of retirement age and deepening decline in investments on Poland's credit rating. Despite the negative tone of the statements, our baseline scenario assumes that Moody's will leave Poland's long-term rating at an unchanged level (A2) with a negative outlook. However, we do not rule out that the above two factors will make the agency downgrade the rating to A3 (with outlook changed from negative to stable). Our baseline scenario assumes that the tone of the releases of both agencies will be less favourable than at the time of the last rating reviews. Therefore, we believe that their publication will be conducive to a slight weakening of PLN and increase in yields on Polish bonds at the long end of the curve. If the rating is downgraded (Moody's) or its outlook changed to negative (Fitch), the reaction of the markets will be adequately stronger. The agencies' decisions will be released after the closing of the European markets, therefore the reaction of the FX market and of the debt market will materialize no sooner than next week.
- **A meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave interest rates at an unchanged level. The issue of stronger than the market consensus increase in the dynamics of industrial production, assembly-and-construction production, and retail sales in November and a marked increase of inflation in December are likely to be raised during the conference in the context of the likelihood of faster than currently expected monetary policy tightening by the MPC. We believe that the NBP Governor, A. Glapiński, will maintain his view from the month before that the Council is following the wait-and-see rule and interest rates are highly likely to be left unchanged throughout 2017. Such scenario is consistent with the market expectations priced in by FRA contracts. The press release after the Council meeting and NBP Governor's remarks during the conference will not be market moving, we believe.
- **Significant data from the US will be released this week.** We forecast that nominal retail sales rose by 0.9% MoM in December vs. a 0.1% increase in November, due to higher sales in the automotive branch. The preliminary University of Michigan index will also be released on Friday. We forecast that its value did not change in January compared to December and amounted to 98.2 pts. The US readings should not be market moving.
- **Data on the Chinese trade balance will be released on Friday.** We expect that its surplus dropped to USD 43.1bn in December vs. USD 44.6bn in November. We forecast that export dynamics recorded a decline in December to -9.5% YoY vs. 0.1% in November, while import dynamics dropped to -3.0% from 6.7%. The publication of data from China will be neutral for the markets, we believe.
- **Final data on the December inflation in Poland will be released on Friday.** We see a slight downside risk in relation to the flash estimate (0.8% YoY vs. 0.0% in November). In our view, the increase in inflation in December was mainly due to higher dynamics of fuel and food prices.

The reading should not be market moving.

- **Data on the Polish balance of payments in November will be released on Friday**. We expect the current account deficit to slightly drop to EUR 366M vs. EUR 393M in October. We forecast that export dynamics rose to 2.0% YoY in November vs. -3.1% in October, while import growth rate rose to 3.4% YoY vs. 0.2%. Conducive to higher export and import growth was the effect of a favourable difference in the number of working days. The publication of the balance of payments data should be neutral for PLN and prices of Polish bonds.

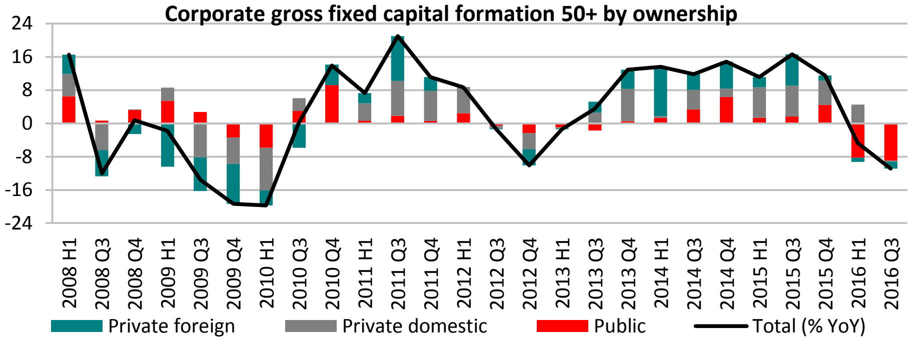
Last week

- **Numerous data from the US economy and business survey results were released last week** Nonfarm payrolls in the US rose by 156k in December vs. a 204k increase in November (revised upwards from 178k), running below the market expectations (177k). The highest increase in employment was recorded in education and health service (+70.0k), leisure and hospitality (+24.0k), and manufacturing (+17.0k). On the other hand, employment decreased in the segment "other services" (-8.0k), information (-6.0k), and construction (-3.0k). Unemployment rate rose to 4.7% in December vs. 4.6% in November, continuing to stay below the natural unemployment rate indicated by FOMC (4.8% - see MACROmap of 19/12/2016). Its increase was mainly due to labour force growing faster than employment. This may indicate that the improving situation in the US labour market encouraged some so far economically inactive persons to enter the labour market. The increase in labour force was reflected by participation rate which amounted to 62.7% vs. 62.6% in November. The annual dynamics of average hourly earnings rose to 2.9% in December vs. 2.5% in November. We expect that the continuing improvement in the labour market, which is close to equilibrium, will be conducive to a further increase in the annual wage dynamics in the coming months. The results of business surveys in the US were also released last week. The ISM manufacturing index increased to 54.7 pts in December vs. 53.2 pts in November. The index increase was due to higher values of 3 out of 5 its subindices (concerning new orders, production, and employment). Lower contributions of subindices concerning delivery times and inventories had an opposite impact. Especially noteworthy in the data structure is the sharp increase in the new orders subindex (60.2 pts vs. 53.0 pts) hitting the highest level since November 2014. The increase in total orders was accompanied by a sharp increase in export orders, which shows that it was largely due to stronger foreign demand. The December ISM non-manufacturing index was also released last week and remained unchanged compared to November amounting to 57.2 pts. Conducive to the index increase was higher new orders subindex while the decrease in subindices concerning employment and business activity had an opposite impact. The value of the subindex concerning delivery times has not changed compared to November. The last week's readings from the US economy support our forecast, in which the annualized US GDP growth rate will amount to 1.7% in Q4 vs. 3.5% in Q3.
- **The Minutes of the December FOMC meeting were released last week.** The Minutes confirmed the words of the FED Chair, J. Yellen, at the press conference after the December meeting that all FOMC members indicated that future monetary policy in the US was subject to high uncertainty due to the shape of the fiscal policy conducted by D. Trump administration (see MACROmap of 19/12/2016). According to the Minutes, many FOMC members believed that possible fiscal stimulation of the US economy, which would have resulted in higher from current FED members' expectations dynamics of economic growth, might incline the Federal Reserve to normalize the monetary policy at a faster pace. However, FOMC members agreed that it was still too early to foresee the final shape of the future fiscal policy conducted by D. Trump administration and estimate its impact on the US macroeconomic outlook. The Minutes of the December FOMC meeting pose a slight upside risk to our scenario, in which we assume that in

the whole 2017 FED will rise increase interest rates by 50bp in total which is below median expectations of the December FOMC projection (75bp).

- **According to a flash estimate, inflation in the Eurozone rose to 1.1% YoY in December vs. 0.6% in November**. Conducive to increase in inflation were higher dynamics of energy and food prices, which increased inflation by 0.4pp and 0.1pp, respectively. In the whole Q4 inflation amounted to 0.7% YoY vs. 0.3% in Q3. In Q1 we expect a further increase in inflation to 1.5% YoY, which will be largely due to last year's low base effects in the category "energy".
- **Caixin PMI index for Chinese manufacturing rose to 51.9 pts in December vs. 50.9 pts in November**. The index increase in December resulted from higher contributions of 4 out of 5 its subindices (new orders, output, stocks of purchases, and delivery times). Lower value of the employment subindex had an opposite impact. Especially noteworthy in the data structure are the subindices concerning total new orders (52.5 pts in Q4 vs. 50.9 pts in Q3) and new export orders (49.8 pts vs. 49.6 pts), which show that the main source of the increase in orders in Chinese manufacturing in H2 2016 was domestic demand while foreign demand was decreasing. The business survey results for Chinese manufacturing support our forecast, in which the GDP growth rate in China will increase by 6.7% in 2016 vs. a 6.5% increase in 2015. Thus, the growth rate will be consistent with the economic growth target set by the Chinese government for 2016 at a level of "6.5-7.0%".

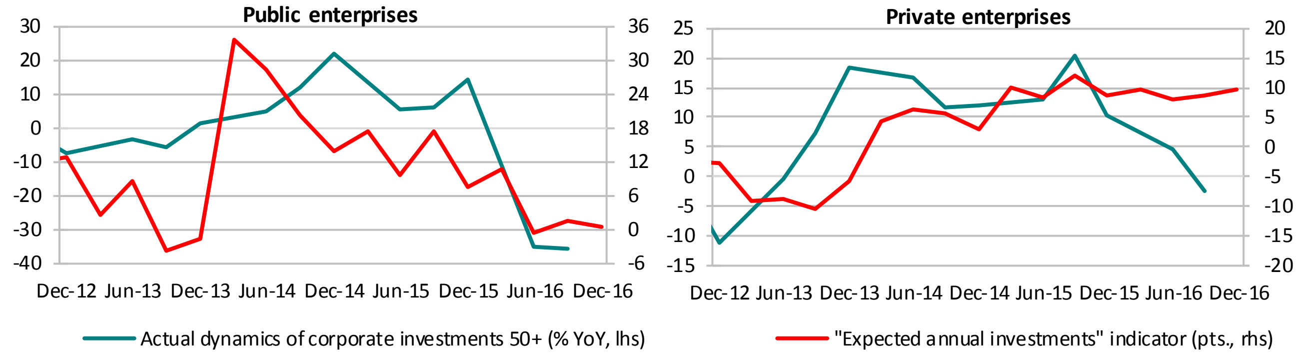
Are corporate investments on the verge of recovery?



Source: Pontinfo, Credit Agricole

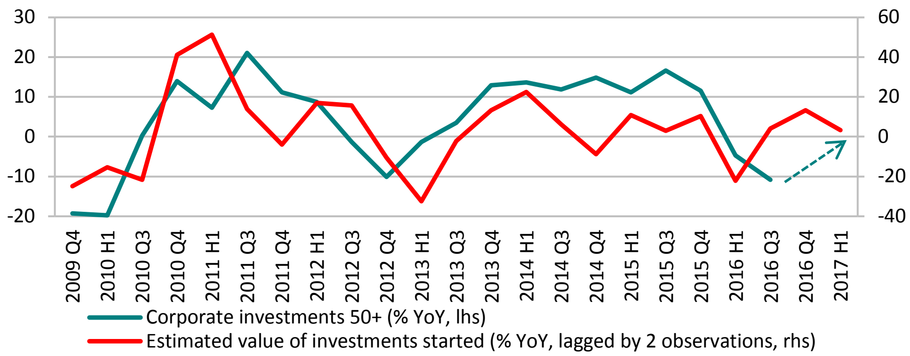
GUS data on fixed capital formation of all enterprises are published with a delay of ca. two quarters in relation to the reporting period. This makes quick assessment of investment trends in companies difficult. GUS data on investments of companies employing at least 50 persons (50+) are available with a shorter delay but fail to provide information on fixed capital formation broken down to the form of ownership of companies. Pontinfo company processes the information that enterprises provide to GUS on F-01 forms (statement of revenues, costs and financial result and outlays on fixed assets). These data are to a large extent consistent with the official GUS statistics and at the same time they are released with a shorter delay. According to Pontinfo data, a deepening of the decline in corporate investments in annual terms was recorded in Poland in Q3 2016 (-10.9% YoY vs. -4.7% in H1 2016). A decline in fixed capital formation was observed in all the segments of enterprises broken down by form of ownership. Lower dynamics in Q3 were mainly due to a decline in domestic investments of private companies (from 12.5% YoY in H1 2016 down to -0.6% in Q3, conducive to a 4.8 pp decrease in investment dynamics of 50+ enterprises). The decline in investment activity of public companies (down by 35.9% YoY in Q3 vs. -35.2% in H1 2016) and foreign private companies (-4.3% YoY vs. -2.5%) has negatively impacted the dynamics of investments of 50+ companies at a similar scale (ca. -0.7 pp each). According to GUS data, the decline in fixed capital formation in Q3 mainly resulted from lower contributions of investments in energy and transport services. We believe that the decline in these categories was mainly due to a temporarily lower utilization of EU funds. Q3 also recorded a deepening of the decline in fixed capital formation in manufacturing and construction. In our view, they were mostly private companies related to public investments cycle (see MACROmap of 28/11/2016 and

31/10/2016). Below we present the most likely scenario of investment activity in 50+ companies in subsequent quarters, based on available data and business survey results.



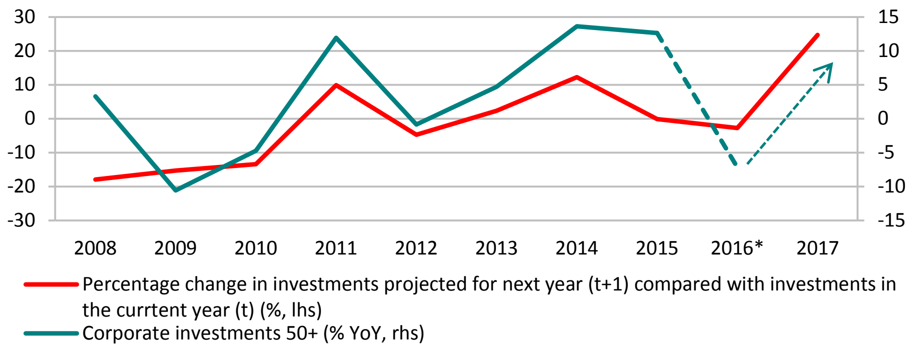
Source: Poniinfo, NBP, Credit Agricole

One of the sources of information on the expected corporate investments profile are NBP surveys of business climate (Quick Monitoring, October 2016). The indicator "Forecasts of annual investments" points to a moderate correlation with the dynamics of investments of 50+ companies (a correlation of ca. 40% between 2012 and 2016). The forecasts of investments of public companies for Q4 2016 have deteriorated only slightly compared to Q3 and for private companies they have slightly improved. Therefore, we believe that in the light of the NBP business surveys, the pace of the decline in investments of 50+ companies may be expected to stabilize at a similar to Q3 heavily negative level.



Source: GUS, Credit Agricole

The second leading indicator for investments of 50+companies is so-called total costing value of commenced investments. It is the value of outlays on building fixed assets started during the reporting period as resulting from design-budget documentation. Based on historical data, it can be noted that the dynamics of the costing value of commenced investments ca. two quarters in advance signals changes in the profile of the growth rate of investments of 50+ enterprises. This interdependence is moderately strong (correlation coefficient of 48.4% between 2010-2016). Considering that dynamics of commenced investments were above zero between Q1 and Q3 2016, we expect that the growth rate of fixed capital formation of 50+ enterprises will reach positive values again in H1 2017.

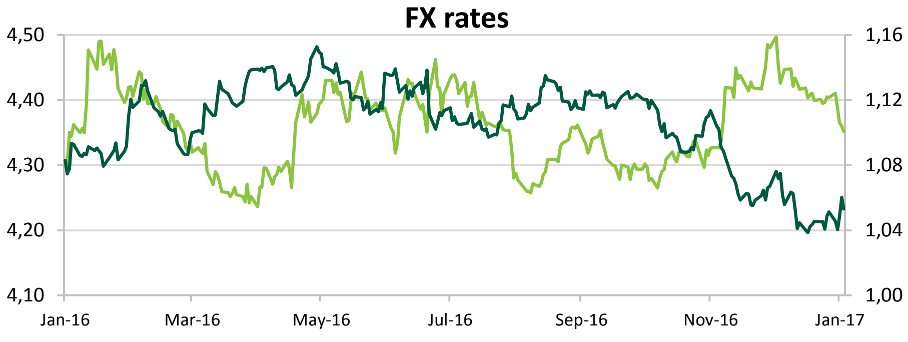


Source: GUS, Pontinfo, Credit Agricole * Dynamics of investments in Q1-Q3 2016

Another source of information on corporate investments profile is GUS business survey. The survey covers 3500 of manufacturing enterprises employing at least 9 persons. The form includes i.a. a question about change in investment outlays expected by enterprises in the next year compared to the current year. The business sentiment indicator of the investment survey is calculated using the method of weighted average of all the replies of single enterprises to this question (index weighted by revenues from sale of products, trade goods, and materials in manufacturing). Historically, this indicator used to show strong correlation with the dynamics of investments of 50+ companies (correlation coefficient of 80.0% between 2008-2015). According to the results of the survey carried out in October 2016, companies expect a sharp increase in fixed capital formation in 2017 (+24.7% YoY vs. a 2.8% decline expected in 2016), which with high probability suggests an acceleration in investments of 50+ companies in 2017.

The tendencies outlined above and observed in business surveys concerning investment activity of companies support our quarterly forecast (see MACROmap of 12/12/2016), in which the dynamics of total corporate investments will increase to 2.6% YoY in 2017 from -7.2% in 2016. 2017 will see an increasing absorption of EU funds in the new programming period. Consequently, in the conditions of continuing high capacity utilization in manufacturing, the dynamics of capital outlays of companies may be expected to increase. At the same time, subsequent investment projects will be launched gradually in public enterprises (see MACROmap of 31/10/2016). High investment activity of companies supports our macroeconomic scenario assuming a sharp acceleration in total investments up to 4.8% YoY in 2017 vs. -5.3% in 2016.

Moody's and Fitch may weaken PLN

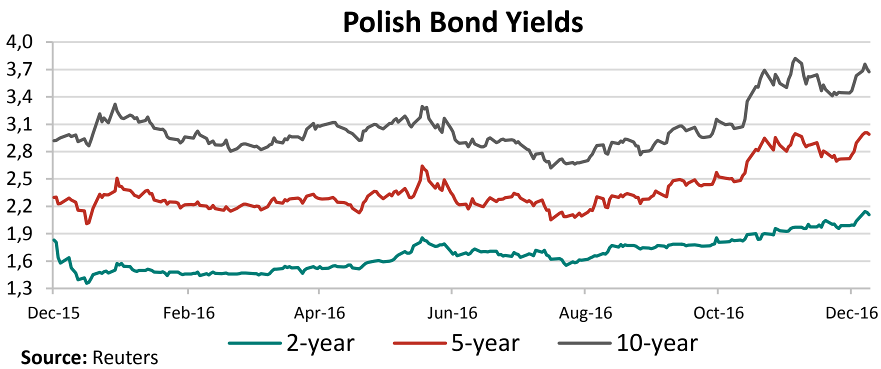


Source: Reuters

Last week EURPLN rate dropped to 4.3519 (strengthening of PLN by 1.2%). On Monday, PLN showed a relatively low volatility, which may have been due to lower investors' activity caused by holiday in key markets (i.a. in the US and in the UK). Better than expected business survey results in Poland (PMI) had a limited impact on PLN. Tuesday through Friday saw appreciation of PLN and other emerging currencies with a decline in global risk aversion reflected by a decrease in VIX index. On Thursday, PLN opened more volatile due to the publication of the Minutes of the December FOMC meeting, pointing to a higher likelihood of sooner normalization of the monetary policy in the US.

The most important event for PLN this week will be the Friday's release of Poland's updated long-term credit rating by Moody's and Fitch. We believe that it will be slightly negative for PLN. However, the decisions of the rating agencies will be released after the closing of the market; therefore, their impact will materialize only next week. Prior to the publication of the reviewed rating the market may suffer from a high level of uncertainty which will boost increased volatility of PLN. Other developments in Poland (MPC meeting, readings of inflation and balance of payments) as well as the publications of data from the US (retail sales, preliminary University of Michigan index) and China (trade balance) will not have a significant impact on PLN, we believe.

The Polish debt market focuses on Moody's and Fitch decisions



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds rose to a level of 2.106 (up by 7 bp), of 5-year bonds to a level of 2.99 (up by 10 bp), and of 10-year bonds to a level of 3.673 (up by 4 bp). Monday morning saw an increase in yields on Polish bonds in response to better than expected results of business surveys (PMI) for Polish manufacturing. Tuesday through Thursday the prices of Polish bonds were stable at the short end and in the center of the curve. In turn, in the case of the long end of the curve, yields on bonds increased on Tuesday afternoon and were decreasing in the following days. The lack of important macroeconomic data in this period suggests that changes in yields were most likely of a transactional nature. On Thursday, there were debt auctions (main and supplementary one) at which the Finance Ministry sold PLN 6.0bn of 2-, 5-, 6-, and 10-year bonds with demand amounting to PLN 15.1bn. Despite the strong demand for Polish bonds, the auctions did not lead to a decline in their yields. On Friday, due to holiday in Poland, the trading in the Polish debt market was suspended.

This week the Polish debt market will focus on the Friday's release of Poland's updated long-term credit rating by Moody's and Fitch. We expect that it will contribute to an increase in yields on Polish bonds, especially visible at the long end of the curve. Nevertheless, the decisions of the rating agencies will be released after the closing of the market on Friday; therefore their impact on the Polish debt market will materialize only next week. Before the publication of the reviewed rating we expect increased volatility on the Polish debt market due to increase in uncertainty. The impact of other events in the Polish economy (MPC meeting, readings of inflation and balance of payments) as well as the publications of data from the US (retail sales, preliminary University of Michigan index) on the prices of Polish bonds will be limited, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	**1,50**
EURPLN*	4,26	4,42	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	**4,44**
USDPLN*	3,92	4,08	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	**4,23**
CHFPLN*	3,91	3,98	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	**4,14**
CPI inflation (% YoY)	-0,5	-0,9	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	**0,8**	
Core inflation (% YoY)	0,2	-0,1	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	**-0,1**	
Industrial production (% YoY)	6,7	1,4	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,3	**3,0**	
PPI inflation (% YoY)	-0,8	-1,2	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,7	**2,5**	
Retail sales (% YoY)	4,9	0,9	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	**6,9**	
Corporate sector wages (% YoY)	3,1	4,0	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	**3,7**	
Employment (% YoY)	1,4	2,3	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	**2,9**	
Unemployment rate* (%)	9,7	10,2	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	**8,3**	
Current account (M EUR)	-846	679	-652	-217	492	389	113	-635	-1007	-999	-393	**-366**		
Exports (% YoY EUR)	10,8	-1,3	5,4	0,0	4,1	0,0	5,7	-5,1	8,5	1,5	-3,1	**2,0**		
Imports (% YoY EUR)	4,4	0,3	7,4	0,9	0,3	1,5	0,4	-6,8	10,7	3,2	0,2	**3,4**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2016				2017				2016	2017	2018
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		3,0	3,1	2,5	1,7	2,6	2,4	3,0	3,9	2,5	3,0	3,2
Private consumption (% YoY)		3,2	3,3	3,9	3,9	3,6	3,6	2,9	2,8	3,6	3,2	2,9
Gross fixed capital formation (% YoY)		-2,2	-5,0	-7,7	-5,4	-1,0	1,3	6,1	8,2	-5,3	4,8	10,0
Export - constant prices (% YoY)		6,7	11,4	6,8	4,5	6,7	9,1	11,8	11,7	7,3	9,9	7,3
Import - constant prices (% YoY)		8,7	10,0	7,8	5,4	8,0	10,7	13,0	13,1	7,9	11,2	9,0
GDP growth contributions	Private consumption (pp)	2,0	1,9	2,3	1,9	2,3	2,1	1,7	1,4	2,1	1,9	1,7
	Investments (pp)	-0,3	-0,9	-1,4	-1,5	-0,1	0,2	1,1	2,1	-1,0	0,9	1,8
	Net exports (pp)	-0,7	1,0	-0,3	-0,3	-0,4	-0,3	-0,3	-0,1	-0,1	-0,3	-0,6
Current account***		-0,8	-0,5	-0,5	-0,6	-0,9	-1,0	-1,1	-1,0	-0,6	-1,0	-1,5
Unemployment rate (%)**		9,9	8,7	8,3	8,3	8,8	7,9	7,8	8,1	8,3	8,1	8,1
Non-agricultural employment (% YoY)		2,2	2,3	1,5	1,3	0,6	0,4	0,2	0,1	1,8	0,3	0,0
Wages in national economy (% YoY)		3,1	4,3	4,1	4,4	4,5	4,6	4,6	4,5	4,0	4,5	4,8
CPI Inflation (% YoY)*		-0,9	-0,9	-0,8	0,1	1,5	1,7	1,3	1,6	-0,6	1,5	2,3
Wibor 3M (%)**		1,67	1,71	1,71	1,73	1,73	1,73	1,73	1,73	1,73	1,73	2,23
NBP reference rate (%)**		1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	2,00
EURPLN**		4,24	4,38	4,29	4,40	4,35	4,33	4,23	4,18	4,40	4,18	4,07
USDPLN**		3,73	3,94	3,82	4,18	4,10	4,12	4,03	3,87	4,18	3,87	3,51

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 01/09/2017				
8:00	Germany	Industrial production (% MoM)	Nov	0,3		0,7
8:00	Germany	Trade balance (bn EUR)	Nov	20,5		21,3
10:30	Eurozone	Sentix Index (pts)	Jan	10,0		12,5
11:00	Eurozone	Unemployment rate (%)	Nov	9,8		9,8
		Tuesday 01/10/2017				
16:00	USA	Wholesale inventories (% MoM)	Nov	0,9		0,9
16:00	USA	Wholesale sales (% MoM)	Nov	1,4		0,5
:	China	PPI (% YoY)	Dec	3,3	5,4	4,5
:	China	CPI (% YoY)	Dec	2,3	2,0	2,3
		Wednesday 01/11/2017				
	Poland	**NBP rate decision (%)**	**Jan**	**1,50**	**1,50**	**1,50**
		Thursday 01/12/2017				
10:00	Germany	Preliminary GDP (% YoY)	12M	1,7	1,7	1,8
11:00	Eurozone	Industrial production (% MoM)	Nov	-0,1		0,5
14:00	**Poland**	**M3 money supply (% YoY)**	**Dec**	**9,7**	**9,1**	**9,4**
		Friday 01/13/2017				
	China	Trade balance (bn USD)	Dec	44,6	43,1	46,5
14:00	**Poland**	**CPI (% YoY)**	**Dec**	**0,0**	**0,8**	**0,8**
14:00	**Poland**	**Current account (M EUR)**	**Nov**	**-393**	**-366**	**-336**
14:30	USA	Retail sales (% MoM)	Dec	0,1	0,9	0,7
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jan	98,2	98,2	98,5
16:00	USA	Business inventories (% MoM)	Nov	-0,2	0,7	0,5

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Reuters

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